

A social club formed to assist its members in their business endeavors through study and discussion of problems and other activities at weekly luncheon meetings does not qualify for exemption under section 501(c)(7) of the Code.

Advice has been requested whether a nonprofit organization formed and operated as described below qualifies for exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

The organization was formed and has been operated to study and discuss business and financial problems; to interchange among its membership business and financial information in order to create and encourage efficiency in business and finance; to assist its members in the expansion and development of their individual trades, businesses, and professions by encouraging the direct interchange of patronage among members; and to assist its members in extending and establishing new trade, business, and professional contacts. Membership is limited to one member from any particular trade or profession. The activities of the organization are carried on at weekly luncheon meetings.

Section 501(c)(7) of the Code provides for exemption from Federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes provided no part of the net earnings inures to the benefit of any private shareholder.

To qualify for exemption under section 501(c)(7) of the Code, an organization must be both organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes. Consequently, not only must an organization show that its members are bound together by a common objective, but that such common objective is directed towards pleasure, recreation, and other nonprofitable purposes. The term 'other nonprofitable purposes' has been held to mean other purposes similar to pleasure and recreation. See *Keystone Automobile Club v. Commissioner*, 181 F.2d 402 (1950), and *Allied Trades Club, Inc. v. Commissioner*, 228 F.2d 906 (1956).

Based on the facts set forth above, the organization is organized and operated primarily to aid its members in their individual business endeavors. Any social activities at the luncheon meetings are merely incidental to the business activities of the organization. Thus, it is not organized and operated exclusively to serve the pleasure, recreation, or other similar social purposes of its members. Accordingly, it is held that the organization is not exempt from Federal income tax under section 501(c)(7) of the Code.

See also Revenue Ruling 59-391, C.B. 1959-2, 151, which holds that such an organization does not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.